

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Northwest Michigan Community Health Agency	County	CHARLEVOIX	Type AUTHORITY	MuniCode	15-7-512
Opinion Date-Use Calendar	Aug 15, 2008	Audit Submitted-Use Calendar	Aug 21, 2008	Fiscal Year-Use Drop List	2007	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue: \$ 22,337,809.00

General Fund Expenditure: \$ 21,525,953.00

Major Fund Deficit Amount: \$ 0.00

General Fund Balance: \$ 4,487,854.00

Governmental Activities
Long-Term Debt (see
instructions): \$ 416,882.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Robert	Last Name	Thompson	Ten Digit License Number			1101011523
CPA Street Address	415 Munson Avenue	City	Traverse City	State	MI	Zip Code	49686
CPA Firm Name	Dennis, Garland & Niergarth	Unit's Street Address	220 West Garfield	City	Charlevoix	LU Zip	49720

**Northwest Michigan Community
Health Agency**

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2007

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NORTHWEST MICHIGAN COMMUNITY HEALTH AGENCY

Management's Discussion and Analysis For Fiscal Year Ended December 31, 2007

This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Department's financial performance during the fiscal year ended December 31, 2007, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Department's financial statements. A comparative analysis will be provided in future years when prior year information is available.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

Financial Highlights

- The assets of the Department exceeded its liabilities at December 31, 2007, by \$4,985,058 at the government-wide level. Of this amount, \$4,187,854 (unrestricted net assets) may be used to meet the Department's ongoing obligations.
- The Department's total net assets increased \$898,036 as a result of this year's operations.
- As of December 31, 2007, the Department's governmental fund reported an ending fund balance of \$4,487,854 an increase of \$394,974.
- As of December 31, 2007, the unreserved and undesignated fund balance was \$2,768,411.

Overview of the Financial Statements

The Northwest Michigan Community Health Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The government-wide financial statements provide information about the activities of the entire Department. They present an overall view of the Department's finances, reporting the assets and liabilities on fiscal year ending December 31, 2007.

The statement of net assets presents information on all of the Northwest Michigan Community Health Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2007. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Northwest Michigan Community Health Agency's offices are supported by intergovernmental revenues, governmental grants, donations, fees and charges for services, interest, local, and contributions. The governmental activities of the Department are all considered health and sanitation programs. The Department does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to the Northwest Michigan Community Health Agency.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Northwest Michigan Community Health Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department operates with one fund, which is considered a governmental fund.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Northwest Michigan Community Health Agency adopts an annual appropriated budget for its Health Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic financial statements can be found on pages 8-9 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 25 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 27. Other supplementary information concerning expenditures of Federal awards can be found on page 31 of this report.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Northwest Michigan Community Health Agency, assets exceeded liabilities by \$4,985,058.

	<u>2007</u>
Current assets	\$ 6,241,406
Other assets	<u>797,204</u>
Total assets	7,038,610
Current liabilities	1,636,670
Noncurrent liabilities	<u>416,882</u>
Total liabilities	<u>2,053,552</u>
Net assets	
Invested in capital assets	797,204
Unrestricted	<u>4,187,854</u>
Total net assets	<u>\$ 4,985,058</u>

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) increased by \$565,339. This represents an increase of approximately 15.6 percent. Net assets invested in capital assets increased by \$332,697. The current level of unrestricted net assets for our governmental activities stands at \$4,187,854. This is within our desired range.

The following table shows the net assets for the year ended December 31, 2007.

	<u>2007</u>
Program revenues	
Charges for services	\$ 13,438,490
Operating grants and contributions	7,956,201
General revenue	
County appropriations	822,615
Cigarette tax	35,407
Interest	<u>85,096</u>
Total revenues	<u>22,337,809</u>
Program expenses	
Personnel services	8,615,775
Supplies	2,618,149
Contractual or professional services	7,084,511
Health services	489,114
Communication	172,858
Travel	495,021
Space cost	726,773
Other	1,135,047
Capital outlay	188,705
Operating transfer out	<u>416,882</u>
Total expenses	<u>21,942,835</u>
Change in net assets	<u>\$ 394,974</u>

For the year ended December 31, 2007, charges for services increased by a net amount of \$1,316,591 mainly due to increased Medicaid fee revenue for Family Planning/Plan First! enrollees and for dental services, with decreased environmental health fees caused by reduced water and septic permit application activity related to declines in new construction because of Michigan's generally poor economic climate.

Total operating grants and other/contributions increased \$1,245,067 related to some new and increased levels of general grant funding, but in particular related to a large Federal 317 vaccine grant the agency received during the fiscal year and an increase in State Plan Amendment dental funding.

Total expenditures increased approximately 18.8% over the previous fiscal year, related somewhat to normal economic cost increase factors but in particular related to costs associated with the increased levels of grant and dental funding noted above.

Financial Analysis of the Government's Fund

As noted earlier, the Northwest Michigan Community Health Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of the Northwest Michigan Community Health Agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Northwest Michigan Community Health Agency's financing requirements. In particular, unreserved-undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Northwest Michigan Community Health Agency's governmental fund reported an ending fund balance of \$4,487,854 an increase of \$394,974 in comparison with the prior year. Of this total, \$936,950 has been reserved for prepaid expenditures, advance receivable activities and inventory. There has been \$571,218 designated for dental assistance fund and \$211,275 designated for Tobacco Coalition. The unreserved and undesignated fund balance at December 31, 2007 was \$2,768,411.

As a measure of the governmental fund's liquidity, it may be useful to compare unreserved (designated and undesignated) fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Unreserved fund balance (\$2,768,411) and total fund balance (\$4,487,854) represent approximately 12.9 percent and 20.8 percent, respectively, of total fund expenditures. Unreserved-undesignated fund balance represents approximately 12.9 percent of total expenditures.

Governmental Fund Budgetary Highlights

Over the course of the year, the Northwest Michigan Community Health Agency's Board of Health may amend the budget to take into account events that occur during the year. For the year ended December 31, 2007, the only budget amendment primarily increased and decreased intergovernmental revenue and expense line items by minor amounts to maintain consistency with actual activities for the fiscal year. In total, the agency's amended expenditure budget changed from \$18,040,511 to \$20,574,714, primarily related to the large Federal 317 vaccine grant received by the agency and increased dental services provided during the fiscal year.

Capital Asset and Debt Administration

Capital Assets: The Northwest Michigan Community Health Agency's investment in capital assets as of December 31, 2007, amounts to \$497,204 (net of accumulated depreciation).

Economic Factors and Next Year's Budget and Rates

For the fiscal year ending December 31, 2007, close monitoring of State budget actions will continue to be important related to lack of economic increases and/or further possible cuts in funding provided through State grant agreements and other State funding mechanisms such as Local Public Health Operations, Medicaid Cost and Rated Based Reimbursement funding supplements. Further, close monitoring of the Michigan Department of Community Health's appeal of an adverse Federal audit related to the Department's Medicaid Cost-Based Reimbursement settlements needs to occur due to the potential implications for the agency's previous and on-going funding from this reimbursement mechanism. It will also be important for the agency to continue to closely monitor environmental health permit applications activity to determine if declines in recent years will continue and to adjust the budget accordingly if so. It will also be important to monitor the agency's Family Planning/Plan First! and Maternal and Infant Health Program client enrollment and State reimbursement systems, due to State level changes that could negatively affect the agency's revenues from these programs. Because all of these funding sources impact the agency's operating budget significantly, changes in their levels of funding could impact that types and levels of service that the Northwest Michigan Community Health Department is able to provide.

Because the services of the Northwest Michigan Community Health Agency are provided based on need and not the ability to pay, and the financial condition of the agency is generally sound, the budget for the fiscal year ending December 31, 2008 included only normal economic increases in fees charged for services to the general public related to the corresponding increased operating costs to provide them and related to the levels of county funds appropriated.

Requests for Information

This financial report is designed to provide a general overview of the Northwest Michigan Community Health Agency's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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Business and Financial Advisors

Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Health
Northwest Michigan Community Health Agency

We have audited the accompanying financial statements of the governmental activities, the major fund and aggregate other funds of the ***Northwest Michigan Community Health Agency*** (the "Agency"), as of and for the year ended December 31, 2007, which collectively compose the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and aggregate other funds of the Agency as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2008 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards*, and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages *i - v* and the budgetary comparison information on Page 27 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Dennis, Gartland & Niergarth

August 15, 2008



Business and Financial Advisors

Our clients' success – our business

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Health
Northwest Michigan Community Health Agency

We have audited the accompanying financial statements of the governmental activities, the major fund and aggregate other funds of the ***Northwest Michigan Community Health Agency*** (the "Agency") as of and for the year ended December 31, 2007, which collectively compose the Agency's basic financial statements, and have issued our report thereon dated August 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported in a separate audit related communications dated June 27, 2008.

The Agency's management's response to the findings identified in our audit are described in the Schedule of Findings and Questioned Costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Health, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

August 15, 2008

**Northwest Michigan Community
Health Agency**

STATEMENT OF NET ASSETS

December 31, 2007

Governmental
Activities

ASSETS

Current assets

Cash and cash equivalents	\$ 2,029,867
Accounts receivable	1,324,465
Due from governmental units	2,250,124
Prepaid expenses	517,107
Inventory	<u>119,843</u>

Total current assets	<u>6,241,406</u>
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Non-current assets

Advances receivable	300,000
Capital assets, net of accumulated depreciation	<u>497,204</u>

Total non-current assets	<u>797,204</u>
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Total assets	<u><u>\$ 7,038,610</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities

Accounts payable	\$ 571,577
Accrued liabilities	756,279
Deferred revenue	<u>308,814</u>

Total current liabilities	1,636,670
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Accumulated accrued benefits	<u>416,882</u>
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Total liabilities	<u>2,053,552</u>
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NET ASSETS

Invested in capital assets, net of related debt	797,204
Unrestricted	<u>4,187,854</u>

Total net assets	<u>4,985,058</u>
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Total liabilities and net assets	<u><u>\$ 7,038,610</u></u>
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The accompanying notes are an integral part of these financial statements.

**Northwest Michigan Community
Health Agency**

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2007

<u>Functions/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue and Changes in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
Health services	<u>\$ 21,439,773</u>	<u>\$ 13,438,490</u>	<u>\$ 7,991,608</u>	<u>\$ (9,675)</u>
General purpose revenues				
Appropriations from local governments				822,615
Investment and other				<u>85,096</u>
Total general purpose revenues				<u>907,711</u>
Change in net assets				898,036
Net assets, beginning of year				<u>4,087,022</u>
Net assets, end of year				<u>\$ 4,985,058</u>

The accompanying notes are an integral part of these financial statements.

**Northwest Michigan Community
Health Agency**

BALANCE SHEET - GOVERNMENTAL FUND

December 31, 2007

	<u>District Health Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,029,867
Accounts receivable	1,324,465
Due from governmental units	2,250,124
Advances receivable	300,000
Prepaid expenses	517,107
Inventory	<u>119,843</u>
Total assets	<u>6,541,406</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	571,577
Accrued liabilities	756,279
Due to internal service fund	416,882
Deferred revenue	<u>308,814</u>
Total liabilities	<u>2,053,552</u>
FUND BALANCE	
Reserved	
Advances receivable	300,000
Prepaid expenses	517,107
Inventory	119,843
Designated for dental clinics	571,218
Designated for tobacco coalition	211,275
Undesignated	<u>2,768,411</u>
Total fund balance	4,487,854
Reconciliation of Governmental Fund Balance to Agency-Wide Governmental Activities Net Assets	
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$1,060,992 and the accumulated depreciation is \$563,788.	
	<u>497,204</u>
Total net assets - governmental activities	<u><u>\$ 4,985,058</u></u>

The accompanying notes are an integral part of these financial statements.

**Northwest Michigan Community
Health Agency**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN
FUND BALANCE - GOVERNMENTAL FUND

For the Year Ended December 31, 2007

	<u>District Health Fund</u>
REVENUES	
State and Federal grants	\$ 7,468,899
Appropriations from local units of government	822,615
Cigarette tax	35,407
Charges for services rendered	13,438,490
Interest earnings	85,096
Contributions from other sources	<u>487,302</u>
Total revenues	<u>22,337,809</u>
EXPENDITURES	
Personnel services	8,615,775
Supplies	2,618,149
Contractual or professional services	7,084,511
Health services	489,114
Communication	172,858
Travel	495,021
Space cost	726,773
Other	1,135,047
Capital outlay	<u>188,705</u>
Total expenditures	<u>21,525,953</u>
REVENUES OVER EXPENDITURES	811,856
OTHER FINANCING USES	
Operating transfer out	<u>(416,882)</u>
Total other financing uses	<u>(416,882)</u>
CHANGE IN FUND BALANCE	394,974
Fund balance, beginning of year	<u>4,092,880</u>
Fund balance, end of year	<u><u>\$ 4,487,854</u></u>

The accompanying notes are an integral part of these financial statements.

**Northwest Michigan Community
Health Agency**

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE WITH
THE AGENCY-WIDE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2007

Total net change in fund balance - governmental funds **\$ 394,974**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay exceeds depreciation in the period.

Capital outlays	\$ 188,705	
Depreciation expense	<u>(156,008)</u>	32,697

In the statement of activities, certain operating expenses-compensated absences (paid time off and sick leave) are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, paid time off and sick leave used were greater than the amounts earned by \$20,674 and \$32,809, respectively. 53,483

Internal service funds are used to account for the accumulation of accrued benefits earned. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 416,882

Change in net assets of governmental activities **\$ 898,036**

**Northwest Michigan Community
Health Agency**

STATEMENT OF NET ASSETS - INTERNAL SERVICE FUND

December 31, 2007

ASSETS	
Due from other funds	\$ <u><u>416,882</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accumulated accrued benefits	
Accrued paid time off	\$ 328,968
Accrued sick leave obligation	<u>87,914</u>
Total liabilities	<u>416,882</u>
NET ASSETS	
Unreserved, undesignated	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 416,882</u></u>

**Northwest Michigan Community
Health Agency**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - INTERNAL SERVICE FUND

For the Year Ended December 31, 2007

OPERATING EXPENSES

Accumulated accrued benefits assumed upon establishment of fund	<u>\$ 416,882</u>
Operating income	<u>(416,882)</u>

NON-OPERATING REVENUES

Transfer from District Health Fund	<u>416,882</u>
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Change in net assets	-
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NET ASSETS , beginning of year	<u>-</u>
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NET ASSETS , end of year	<u><u>\$ -</u></u>
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Northwest Michigan Community Health Agency

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Northwest Michigan Community Health Agency, (the "Agency"), a component unit of Charlevoix County, is a Michigan municipal body and an agency of Antrim, Charlevoix, Emmet and Otsego Counties, created under Act 368, Public Acts of 1978, to provide certain public health services to area residents. The Agency is used to control the expenditure of revenues from agreements with the State of Michigan, local appropriations and charges for services rendered. The Agency is governed by the Northwest Michigan Community Health Agency Board of Health.

The accounting policies of the Agency conform to generally accepted accounting principles as applicable to governments. The Agency is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the Agency are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Agency's financial activities for the fiscal year ended December 31, 2007.

Financial Reporting Entity

The Agency's financial statements include the accounts of all Agency operations. In evaluating the Agency as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Agency may or may not be financially accountable and, as such, be includable within the Agency's financial statements. In accordance with GASB Statement No.14, the Agency is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Agency. Additionally, the Agency is required to consider other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete.

Based on this criteria, management has not identified any potential component units requiring consideration for inclusion in the Agency's financial statements. Further, based on guidance provided by the Michigan Department of Treasury, the Agency is included in the financial reporting entity of the County of Charlevoix.

Agency-Wide and Fund Financial Statements

Agency-Wide Financial Statements

The statement of net assets and statement of activities display information about the Agency as a whole. Individual funds are not displayed, but the statements report all governmental activities generally supported by the Agency's general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

The Agency does not conduct any business-type activities which would, otherwise, be reported in the agency-wide statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Agency's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures/expenses and changes in fund balance/net assets (i.e., fund financial statements) for the Agency's governmental funds and proprietary fund are presented after the agency-wide statements. These statements display information about the major fund and aggregate other funds for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Agency are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The Agency's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Agency's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The agency-wide and proprietary fund statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Agency considers revenues from non-exchange transactions to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for compensated absences and general obligation bond principal and interest, which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include intergovernmental revenues, certain charges for services and investment income. In general, other revenues are recognized when cash is received.

NOTES TO FINANCIAL STATEMENTS - Continued

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds

Major Funds

The District Health Fund is the general operating fund of the Agency. It is used to account for the proceeds of revenue sources legally restricted for public health activities.

Other Funds

At December 31, 2007, the Agency established an internal service fund to accumulate resources to finance accrued benefits earned.

Cash and Cash Equivalents

For the purpose of balance sheet classification, the Agency considers all highly-liquid debt instruments with a maturity of three months or less to be a cash equivalent. The Agency reports its interest in the Charlevoix County pooled accounts as a cash equivalent.

Investments

Investments are reported at fair value.

Inventory

Inventories in governmental funds consist of vaccinations held for consumption stated on a first-in, first-out basis. They are reported at cost, which is assigned by the Center for Disease Control, when granted and recorded as an expenditure at the time individual inventory items are used.

Inventories are similarly reported in agency-wide and fund financial statements.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. The Agency generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

NOTES TO FINANCIAL STATEMENTS - Continued

Estimated useful lives, in years, for depreciable assets are as follows:

Furniture and equipment	5 - 7
Leasehold improvements	15
Software	3

Fund Equity

The governmental fund financial statements report reserved fund equity for amounts not appropriable for expenditures or legally segregated by outside parties for a specific future use. Designations of fund balances represent management's plans for future use of financial resources.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

The most sensitive estimates affecting the financial statements include the following:

The allocation of certain costs to the various programs based on the indirect cost allocation plan approved by the State of Michigan.

Valuation of the estimated realizable amount of revenue and related receivables recorded for direct patient services and fees billed to patients or third-party payers.

Depreciation expense is recorded based on capital outlay schedules and estimated useful lives maintained by the Agency's management.

The Agency's obligation for accrued sick time and paid time off benefits.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the Agency's general revenues.

The Agency's most significant program revenues are permits and fees, charges for services, and State and Federal grants.

NOTES TO FINANCIAL STATEMENTS - Continued

Revenue Recognition

The Agency realizes revenue from two primary sources: Direct patient services and fees, and grants from other governments. Direct patient service revenue is recognized at the time the services are performed and billed to patients or third-party payers to the extent such amounts are estimated to be realized in cash. Subsequent changes in estimated realizable amounts are recorded as an increase or decrease in revenue. Established fees for permits, inspections and evaluations are required to be paid in advance and revenue is recognized at that time. Grant revenue is recorded when grant requirements are met. Deferred revenue is recorded for certain receivables for which the measurability is not ascertainable until received in cash.

Contractual adjustments by third-party payers are treated as a reduction of revenue. Accounts receivable represents uncollected gross billed amounts reduced to their estimated net realizable value.

NOTE B - BUDGETARY POLICY AND PRACTICE

The Agency follows the provisions of P.A. 621 of 1978 (the Uniform Budgeting and Accounting Act) (the "Act") in the adoption and execution of its budget. The Act requires amounts be appropriated in the District Health Fund before expenditures may be incurred. Appropriations must be amended to allow expenditures in excess of the original appropriation. However, appropriations in excess of revenues and available fund balance are in violation of the Act. All budget appropriations lapse at the end of each fiscal year.

During the year ended December 31, 2007, the Agency incurred expenditures which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
District Health Fund			
Supplies	\$ 2,213,980	\$ 2,618,149	\$ 404,169
Contractual or professional services	6,610,280	7,084,511	474,231
Communication	166,452	172,858	6,406
Travel	459,156	495,021	35,865
Space cost	621,971	726,773	104,802
Other	1,130,032	1,135,047	5,015
Operating transfer out	-	416,882	416,882

The large variance in supplies is the result of in-kind vaccination grants not being fully appropriated in the final budget amendment.

The large variance in contractual or professional services is the result of increased dental clinic activity.

The large variance in operating transfer out is the result of establishing an internal service fund at December 31, 2007 to accumulate resources to finance accrued benefits earned.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH

The funds of the Agency are deposited as permitted under Act 20 P.A. 1943, as amended by Act 196 P.A. 1997.

At December 31, 2007, the Agency's cash include the following:

	<u>Cash</u>
Cash on hand	\$ 1,640
Bank deposits	12,601
County pool	<u>2,015,626</u>
	<u><u>\$ 2,029,867</u></u>

Deposits

Michigan law authorizes the Agency to deposit in the accounts of Federally insured banks, credit unions and savings and loans associations located in Michigan.

Custodial Credit Risk - Bank Deposits

In the event of a bank failure, the Agency's uninsured bank deposits may not be returned to it. As of December 31, 2007, none of the Agency's bank deposits were exposed to custodial credit risk because they were uninsured and uncollateralized.

The Agency's cash balance includes amounts held in the Charlevoix County pooled account. The carrying value for the County pooled account represents the Agency's share on deposit with the County for which insurance coverage is limited to the extent of the County's available insurance coverage.

NOTE D - DUE FROM GOVERNMENTAL UNITS

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from governmental units at December 31, 2007 are as follows:

Due from the State of Michigan	
Dental State Plan Amendment	\$ 1,522,626
Other	466,427
Due from other governmental units	<u>261,071</u>
	<u><u>\$ 2,250,124</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - ADVANCES RECEIVABLE

Advances receivable consists of \$30,000 advances given to a related party for each of the related party's ten dental clinics; a total of \$300,000. The advances are due back to the Agency in the event that the contract between the organizations is severed.

NOTE F - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
Internal service fund	<u>\$ 416,882</u>	District Health Fund	<u>\$ 416,882</u>

NOTE G - INTERFUND TRANSFERS

Operating Transfers

A summary of operating transfers in and out of individual funds follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers among governmental and proprietary funds		
District Health Fund	\$ -	\$ 416,882
Internal Service Fund	<u>416,882</u>	<u>-</u>
Total governmental and proprietary funds	<u>\$ 416,882</u>	<u>\$ 416,882</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	December 31, 2006	Additions	Retirements	December 31, 2007
Furniture and equipment	\$ 667,360	\$ 45,259	\$ -	\$ 712,619
Leasehold improvements	-	50,000	-	50,000
Software	<u>204,927</u>	<u>93,446</u>	<u>-</u>	<u>298,373</u>
Total capital assets	872,287	188,705	-	1,060,992
Less accumulated depreciation	<u>(407,780)</u>	<u>(156,008)</u>	<u>-</u>	<u>(563,788)</u>
Total capital assets, net	<u>\$ 464,507</u>	<u>\$ 32,697</u>	<u>\$ -</u>	<u>\$ 497,204</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Health Services	<u>\$ 156,008</u>
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NOTE I - ACCUMULATED ACCRUED BENEFITS

During 2005, the Agency adopted a paid time off policy to account for accumulated accrued benefits. As part of the adoption of this policy, all previously accumulated vacation leave was transferred to paid time off, along with a portion of previously accumulated sick leave as determined by employees.

Subsequently, 100% of accumulated benefits earned will be treated as paid time off. A maximum of 50 days of paid time off may be accrued by an employee, and upon termination of employment, up to 100% of the accumulated time may be paid out based upon length of service. At December 31, 2007, the Agency established an internal service fund to accumulate accrued benefits earned. The paid time off liability at December 31, 2007 was estimated at \$328,968.

Accumulated sick leave not transferred to paid time off remains available to the employees and an obligation of the Agency. The amounts continue to be based on a percentage of each employee's remaining accumulated hours at their current rate. A maximum of 675 hours of sick time can be accrued by an employee. Upon termination of employment, up to 50% of the accumulated sick leave may be paid out based upon the length of service. At December 31, 2007, the Agency established an internal service fund to accumulate accrued benefits earned. The accumulated sick leave liability at December 31, 2007 was estimated at \$87,914.

NOTE J - THIRD-PARTY REIMBURSEMENTS

Significant patient service revenue and account receivable balances for service fees were derived from reimbursements for providing medical services to Medicare and Medicaid recipients. Possible changes in the health care financing systems may have an effect on the Agency's future revenues.

Revenue and related receivables recorded for direct patient services and fees require sensitive accounting estimates because the Agency records the revenue billed to patients or third-party payers to the extent such amounts are estimated to be realized in cash. The full fee for service is recorded as revenue and contractual adjustments by third-party payers are treated as a reduction of revenue. Subsequently, any changes in the estimated realizable amounts are treated as either an increase or decrease in revenue. Such changes could occur in the near-term in material amounts.

The Agency provides care to patients who meet certain criteria under its grant agreements without charge or at amounts based on ability-to-pay according to a sliding fee schedule.

NOTE K - DEFINED BENEFIT PENSION PLAN

The Agency participates in the agent multiple-employer Michigan Municipal Employees Retirement System (the "System"). The plan was closed to new entrants as of May 1, 1999 and existing employees at that date were given the opportunity to convert to a defined contribution plan. Retirement benefits are based upon an employee's five-year final average compensation and credited years of service. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at MERS, 447 North Canal Road, Lansing, MI 48917 or by calling 1-517-622-4401.

Annual Pension Cost

For the year ended December 31, 2007, the Agency's annual pension cost of \$104,436 for the plan was equal to the Agency's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal funding method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8% a year compounded annually; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases of up to 8.4% per year, attributable to seniority and merit; and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement for persons under certain benefit packages. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over 30 years and adjusts to the effects of inflation on future benefits and future normal costs.

NOTES TO FINANCIAL STATEMENTS - Continued

	2006	2005	2004
Annual pension cost ("APC")	\$ 104,436	\$ 95,052	\$ 107,522
Percentage of APC contributed	100 %	100 %	100 %
Net pension contribution	104,436	95,052	107,522
Actuarial value of assets	3,947,725	3,722,813	3,554,727
Actuarial accrued liability ("AAL")	4,564,632	4,287,475	4,046,902
Unfunded (overfunded) AAL	616,907	564,662	492,175
Percentage of funded AAL	86 %	87 %	88 %
Covered payroll	875,025	841,050	818,484
UAAL as a percentage of covered payroll	71 %	67 %	60 %

NOTE L - DEFINED CONTRIBUTION PENSION PLAN

As of May 1, 1999, the Agency established a defined contribution retirement plan through the Michigan Municipal Employees Retirement System. Existing employees were given the opportunity to remain in the defined benefit plan or convert to the defined contribution plan. All employees hired after May 1, 1999 are covered under the defined contribution plan.

The plan is administered by the Michigan Municipal Employees Retirement System with the International City Management Association Retirement Corporation ("ICMA") acting as investment fiduciaries. Contributions are determined by an employment agreement requiring employer contributions of 7% of covered payroll. As a supplement to the required employer contribution, eligible employees may also elect to contribute 2% of their salary through a payroll deduction, upon which the Agency will match 2%.

The Agency contributed \$507,124 to the plan during the year ended December 31, 2007.

NOTE M - DEFERRED COMPENSATION PLAN

The Agency offers their employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the Agency with Nationwide Investment Service Corporation and American Funds acting as investment fiduciaries. The plan is available to all employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE N - OPERATING LEASE COMMITMENTS

The Agency leases office facilities and certain office equipment. Expenditures incurred for space costs are as follows:

Minimum rentals	\$ 427,600
Repairs, maintenance and utilities	<u>299,173</u>
	<u><u>\$ 726,773</u></u>

The following is a schedule, by years, of future minimum rental payments and sub-lease income required under leases having remaining noncancelable lease terms in excess of one year as of December 31, 2007:

	<u>Lease Payments</u>	<u>Sub-Lease Receipts</u>	<u>Net</u>
2008	\$ 441,455	\$ 8,462	\$ 432,993
2009	439,154	-	439,154
2010	439,154	-	439,154
2011	430,154	-	430,154
2012	385,154	-	385,154
2013-2017	1,500,239	-	1,500,239
2018-2022	720,000	-	720,000

The Agency is generally responsible for utilities, maintenance and repairs, and certain insurance coverage relating to the leased properties in Antrim, Charlevoix, Emmet and Otsego Counties. The Agency received \$157,427 in sublet income during 2007.

The Agency paid \$434,607 in rent during 2007 to subsidiaries of the Northern Health Foundation, a private, non-profit organization, with which the Agency shares common management.

NOTE O - SELF-INSURED HEALTH BENEFITS

Effective September 1, 2006, the Agency implemented a self-funded health insurance plan which is administered by an insurance company who determines the current funding requirements for participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. A stop-loss policy is maintained through the insurance company that administers the plan. Stop-loss fees for the plan consisted of \$5,820 per month. The policy's monthly premium is \$43,693. Administrative fees for the plan consisted of \$3,085 per month for the year ended December 31, 2007.

NOTE P - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is a member in the Michigan Municipal Risk Management Authority ("MMRMA") for risk of loss relating to its property and general liability (except auto liability and vehicle physical damage).

The MMRMA is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the MMRMA is to administer a risk management fund, which provides members with loss protection for general and property liability.

The Agency has joined with numerous other governmental agencies in Michigan as a participant in MMRMA's "State Pool." Members of the State Pool do not have individual self-insured retention amounts other than a \$500 deductible per occurrence of liability coverage and a \$250 deductible per occurrence of property coverage.

State Pool members' limits of coverage (per occurrence) are \$5 million for liability and as much as \$5 million for property. Flood and earthquake coverage limits are higher. If a covered loss exceeds these limits or, if for any reason, MMRMA's resources are depleted, the payment of all unpaid losses is the sole obligation of the Agency.

The Agency carries commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

NOTE Q - CONCENTRATIONS

Approximately 82% of charges for services rendered revenue and 80% of the December 31, 2007 accounts receivable balance were derived from reimbursements for providing medical services to Medicare and Medicaid recipients. Changes in the healthcare financing systems may have an effect on the Agency's future revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE R - RECONCILIATION OF CASH FLOWS

A statement of cash flows has not been presented for the internal service fund because the fund was established at the end of the year and there has not yet been any cash activity.

A reconciliation of operating income to net cash provided by operating activities follows:

	<u>Internal Service Fund</u>
Operating income	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities	
Change in assets and liabilities	
Due from other funds	(416,882)
Accrued paid time off	328,968
Accrued sick leave obligation	<u>87,914</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

REQUIRED SUPPLEMENTAL INFORMATION

Northwest Michigan Community Health Agency

BUDGETARY COMPARISON SCHEDULE FOR THE DISTRICT HEALTH FUND

For the Year Ended December 31, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
State and Federal grants	\$ 3,419,495	\$ 4,999,656	\$ 7,468,899	\$ 1,580,161	\$ 2,469,243
Grants from local units of government	1,050,933	1,037,026	822,615	(13,907)	(214,411)
Cigarette tax	-	289,613	35,407	289,613	(254,206)
Charges for services rendered	13,485,083	14,134,153	13,438,490	649,070	(695,663)
Interest earnings	40,000	69,266	85,096	29,266	15,830
Contributions from other sources	45,000	45,000	487,302	-	442,302
Total revenues	18,040,511	20,574,714	22,337,809	2,534,203	1,763,095
EXPENDITURES					
Personnel services	12,290,662	8,660,843	8,615,775	3,629,819	45,068
Supplies	1,377,930	2,213,980	2,618,149	(836,050)	(404,169)
Contractual or professional services	1,798,480	6,610,280	7,084,511	(4,811,800)	(474,231)
Health services	453,651	512,000	489,114	(58,349)	22,886
Communication	164,451	166,452	172,858	(2,001)	(6,406)
Travel	365,781	459,156	495,021	(93,375)	(35,865)
Space cost	591,021	621,971	726,773	(30,950)	(104,802)
Other	898,535	1,130,032	1,135,047	(231,497)	(5,015)
Capital outlay	100,000	200,000	188,705	(100,000)	11,295
Total expenditures	18,040,511	20,574,714	21,525,953	(2,534,203)	(951,239)
REVENUES OVER EXPENDITURES	-	-	811,856	-	811,856
OTHER FINANCING USES					
Operating transfer out	-	-	(416,882)	-	(416,882)
Total other financing uses	-	-	(416,882)	-	(416,882)
CHANGE IN FUND BALANCE	-	-	394,974	-	394,974
Fund balance, beginning of year	4,092,880	4,092,880	4,092,880	-	-
Fund balance, end of year	\$ 4,092,880	\$ 4,092,880	\$ 4,487,854	\$ -	\$ 394,974

FEDERAL PROGRAMS



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Board of Health
Northwest Michigan Community Health Agency

Compliance

We have audited the compliance of the ***Northwest Michigan Community Health Agency*** (the "Agency") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement*, that are applicable to each of its major Federal programs for the year ended December 31, 2007. The Agency's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to its major Federal programs for the year ended December 31, 2007.

Member of



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Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the major fund and aggregate other funds of the ***Northwest Michigan Community Health Agency***, as of and for the year ended December 31, 2007, and have issued our report thereon dated August 15, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively compose the Agency's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Health, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

August 15, 2008

**Northwest Michigan Community
Health Agency**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Federal Expenditures
Department of Agriculture		
Passed through the Michigan Department of Community Health Special Supplemental Nutrition Program for Women, Infants and Children	10.557	\$ <u>444,493</u>
Department of Health and Human Services		
Passed through the Michigan Department of Community Health Family Planning Services	93.217	<u>41,111</u>
Childhood Immunization Grants	93.268	<u>862,655</u>
Maternal and Child Health Services Block Grants		
Crippled Children		60,703
Family Planning		3,586
Oral Health		65,934
Case Management		<u>33,148</u>
Total Maternal and Child Health Services Block Grants	93.994	<u>163,371</u>
Centers for Disease Control and Prevention, Investigation and Technical Assistance		
Bioterrorism		367,395
Breast and Cervical Cancer		<u>86,439</u>
Total Centers for Disease Control and Prevention, Investigation and Technical Assistance	93.283	<u>453,834</u>
Total passed through the Michigan Department of Community Health		<u>1,520,971</u>
Passed through the Michigan Department of Human Services		
Medical Assistance Program		
Prenatal Care Outreach and Service Delivery		51,344
Medical Review and Nursing Evaluation		71,542
Medicaid Administration		<u>73,246</u>
Total passed through the Michigan Department of Human Services	93.778	<u>196,132</u>
Total Department of Health and Human Services		<u>1,717,103</u>
Total Federal Financial Assistance		<u>\$ 2,161,596</u>

The accompanying notes are an integral part of this schedule.

**Northwest Michigan Community
Health Agency**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2007

- Note 1** The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to or derived from amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports including claims for advances and reimbursements and amounts claimed or used for matching, are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared.

- Note 4** An analysis of the total Federal and State grants follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	\$ 2,161,596
State financial assistance	5,347,657
Receipts recorded as deferred revenue	<u>(40,354)</u>
Total State and Federal grants revenue reported in basic financial statements	<u><u>\$ 7,468,899</u></u>

**Northwest Michigan Community
Health Agency**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2007

Current Year

Section 1 - Summary of Auditors' Results

1. The audit report on the Agency's financial statements was unqualified.
2. There was one significant deficiency in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards, Finding Number 2007-1.
3. There were no compliance findings disclosed that were material to the Agency's financial statements.
4. There were no significant deficiencies relating to the audit of the major Federal award programs.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings that are required to be reported.
7. The Agency's major programs were Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557); Centers for Disease Control and Prevention, Investigation and Technical Assistance (CFDA No. 93.283); Medical Assistance Program (CFDA No. 93.778).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. The auditee qualified as low risk.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2007-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the Agency's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many local governments, the Agency has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Agency's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Agency's *internal* controls.

Cause: This condition was caused by the Agency's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the Agency to perform this task internally.

Effect: As a result of this condition, the Agency lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The Agency has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Agency to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Prior Year

Finding Number 2006-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the Agency's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many local governments, the Agency has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Agency's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Agency's *internal* controls.

Cause: This condition was caused by the Agency's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the Agency to perform this task internally.

Effect: As a result of this condition, the Agency lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The Agency evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it was in the best interests of the Agency to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.



Business and Financial Advisors
Our clients' success – our business

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AUDIT-RELATED COMMUNICATIONS

To the Board of Health
Northwest Michigan Community Health Agency

We have audited the financial statements of the governmental activities, the major fund and aggregate other funds of Northwest Michigan Community Health Agency (the "Agency") for the year ended December 31, 2007 and have issued our report thereon dated August 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated December 10, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Agency's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement applicable to each of its major Federal programs for the purpose of expressing an opinion on the Agency's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Agency's compliance with those requirements.

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Internal Controls

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We have issued our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* thereon dated August 15, 2008.

The following additional matters are not considered to be material weaknesses or significant deficiencies in internal control, but are opportunities to strengthen internal controls, reporting and operating efficiency:

Self-Insured Health Benefits

The Agency has implemented a self-fund health insurance plan which is administered by an insurance company who determines the current funding requirements for participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. We recommend the Agency review accounting standards for self-insured health benefits under the Governmental Accounting Standards Board ("GASB") No. 10 and consider whether any changes to current practices are needed.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on April 5, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Agency are described in Note A to the financial statements. Except for the item noted below, no new accounting policies were adopted and the application of existing policies was not changed in 2007.

Internal Service Fund

At December 31, 2007, the Agency established an internal service fund to accumulate resources to finance accrued benefits earned.

We noted no transactions entered into by the Agency during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Allocation of certain costs to the various programs require particularly sensitive accounting estimates because such allocations are the basis of State grant funding. The process used by management in formulating these estimates are, to a great extent, provided by the Michigan Department of Community Health. During the audit, we evaluate management's estimates as compared to the Michigan Department of Community Health guidelines as a basis for concluding about the reasonableness of these estimates.

The Agency recognizes State grant revenue when expenditures are incurred; however, final cost settlement must be approved by the State.

Revenue and related receivables recorded for direct patient services and fees require sensitive accounting estimates because the Agency records the revenue billed to patients or third-party payers to the extent such amounts are estimated to be realized in cash. The full fee for service is recorded as revenue and contractual adjustments by third-party payers are treated as a reduction of revenue. Subsequently, any changes in estimated realizable amounts are treated as either an increase or decrease in revenue.

Management's estimate of depreciation was based on capital outlay schedules maintained by the Agency. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The Agency records an obligation for paid time-off benefits in the statement of net assets. The policy states a maximum of 50 days of accumulated time may be paid out based upon length of service. The accrued paid time-off obligation was estimated at \$416,882 at December 31, 2007.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosures affecting the financial statements were:

The disclosure of the reporting entity in Note A to the financial statements, Note I - Accumulated Accrued Benefits and Note K - Defined Benefit Pension Plan.

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Unrecorded Adjustments

As noted above, the full fee for direct patient services are estimated to the extent such amounts are expected to be realized in cash. Therefore, the Agency may have accounts receivable from various sources which may be considered uncollectible. While auditing service receivables, we noted write-offs during 2008 in the amount of \$21,356 related to receivables reported at December 31, 2007. Both we and the Agency's management have evaluated these receivables and consider any difference to be immaterial to the financial statements.

An unaccrued liability related to the Medical Assistance Program payments in excess of reimbursement.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 15, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Emerging Issues and New Accounting Standards

Other Post-Employment Benefits and Termination Benefits

Employees of governmental organizations may be compensated in a variety of forms in exchange for their services. In addition to salary, many employees earn benefits over their years of services that will not be received until after their employment with the government ends through retirement or other reasons for separation. As the name suggests, other post-employment benefits ("OPEB's") are post-employment benefits other than pensions such as defined benefit health insurance, dental, vision, prescription drug and other health care benefits. Health insurance premium subsidies (in which retirees pay lower premiums as a result of their inclusion in the governmental participant group) are another type of OPEB. It may also include some types of life insurance, legal services and other benefits. Government organizations were exempt from this reporting obligation until the issuance of GASB 45 in June 2006. GASB 45 (effective for the Agency's year ending December 31, 2008) requires the value of the promise made to provide post-employment benefits must now be actuarially calculated and accrued during the working years of employees and recognized as a financial obligation of the government organization.

Pension Disclosures effective for December 31, 2008

GASB 50 (effective for the Agency's year ending December 31, 2008) is intended to improve the transparency and usefulness of financial reporting by government employees by requiring new note disclosures and required supplementary information. These disclosures relate to the funded status of the plan, actuarial method and assumptions used, information on required contribution rates, alternative actuarial valuation disclosures in some cases and methods used to value investments.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Health and management of Northwest Michigan Community Health Agency and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

August 15, 2008